

MARYSVILLE HOUSING COMMISSION  
MARYSVILLE, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2006  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name MARYSVILLE HOUSING COMMISSION	County ST. CLAIR
Fiscal Year End MARCH 31, 2006		Opinion Date NOVEMBER 9, 2006		Date Audit Report Submitted to State DECEMBER 24, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	REPORT ON COMPLIANCE AND INTERNAL CONTROL	
Certified Public Accountant (Firm Name) BARRY E. GAUDETTE, CPA, PC			Telephone Number 231-946-8930	
Street Address 1107 E. EIGHTH STREET			City TRAVERSE CITY	State MI
			Zip 49686	
Authorizing CPA Signature 		Printed Name BARRY E. GAUDETTE, CPA		License Number 11050

MARYSVILLE HOUSING COMMISSION  
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## INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Marysville Housing Commission  
Marysville, Michigan

I have audited the accompanying financial statements of the business-type activities of the Marysville Housing Commission, Michigan, a component unit of the City of Marysville, as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Marysville Housing Commission, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Marysville Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated November 9, 2006, on my consideration of Marysville Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Marysville Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bary E. Sandell, CPA PC*

November 9, 2006

MARYSVILLE HOUSING COMMISSION  
1100 New York Street  
Marysville, MI 48040

Wayne P. Pyden, Executive Director

As management of the Marysville Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Marysville Housing Commission's financial activities for the FYE 3/31/06. This discussion and analysis letter of the Marysville Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities. The accompanying Financial Data Schedule reports these results in more detail, program by program. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAS to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

**Marysville Housing Commission Funds:**

**Low Rent Public Housing:** Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

**Capital Fund Program:** Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 100% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

**Entity-Wide Financial Highlights:**

The following Federal Assistance was received during FYE 3/31/06:

	<u>FYE 3/31/06</u>	<u>FYE 3/31/05</u>	<u>Change</u>
Public Housing Operating Subsidy	\$ 138,130	\$ 125,979	\$ 12,151
Capital Fund Program Grants	<u>21,803</u>	<u>91,306</u>	<u>(69,503)</u>
Total	<u>\$ 159,933</u>	<u>\$ 217,285</u>	<u>\$(57,352)</u>

The subsidy for Public Housing increased by 9.7%. The decrease in the Capital Fund Program was due to the fact that work projects have not been completed yet for the current fiscal year.

The following represents changes in the Asset and Equity sections of the Balance Sheet:

	<u>FYE</u> <u>3/31/06</u>	<u>FYE</u> <u>3/31/05</u>	<u>Change</u>
Cash & investments	\$ 539,187	\$ 560,453	\$ ( 21,266)
Total Current Assets, net of interprogram(due from)	550,901	583,032	( 32,131)
Fixed Assets, Net of Depreciation	2,966,130	3,112,294	(146,164)
Total Liabilities, net of interprogram(due to)	118,384	117,384	1,000
Total Equity/Net Assets	3,398,647	3,583,767	(185,120)

Cash and Investments decreased by 3.8%. This decrease was primarily sustained in the cash balances, as investments stayed stable. The decrease can be attributed, in part, to the purchase of capital assets of \$41,316. Fixed assets decreased by 4.7% which is the difference of depreciation of \$187,480 and less the purchase of capital assets of \$41,316. Total Net Assets(Equity) decreased by 5.2%, which is the same as the change in net assets.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

**Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>FYE 3/31/06</u>	<u>FYE 3/31/05</u>	<u>Per Cent</u> <u>Change</u>
Revenues:			
Tenant Revenue	\$ 327,754	\$ 323,677	1.3%
Other Revenue	18,473	14,569	26.8%
Total PHA generated Revenue	346,227	338,246	28.1%
Operating subsidies	138,130	125,979	9.7%
Capital grants	21,803	91,306	-76.2%
Total Revenue	<u>\$ 506,160</u>	<u>\$ 555,531</u>	<u>- 8.9%</u>
Expenses:			
Administrative	\$ 141,051	\$ 129,842	8.7%
Tenant Services	4,837	5,843	-17.3%
Utilities	114,456	99,622	14.9%
Maintenance	194,156	188,359	3.1%
General	45,630	49,774	- 8.4%
Extraordinary Items	3,670	15,550	-76.4%
Depreciation	187,480	178,662	5.0%
Total Expenses	<u>\$ 691,280</u>	<u>\$ 667,652</u>	<u>3.6%</u>
Net Increase (Decrease)	<u>\$ ( 185,120)</u>	<u>\$ ( 112,121)</u>	



## Revenues:

Operating Revenue received from HUD in FYE 3/31/06 Public Housing increased by 9.7% from FYE 3/31/05 to 3/31/06. Capital Fund revenue decreased 76.2% due to capital improvements not completed as of 3/31/06. For FYE 3/31/06, revenue generated by the Commission accounted for \$346,227 (or 68.4% of total revenue), while HUD contributions accounted for \$159,933 (or 31.6% of total revenue).

## Expenses:

Total Expenses for FYE 3/31/05 were \$667,652 while for FYE 3/31/06 the total was \$691,280. This represents a 3.6% increase in our Operating Costs, an amount that can be substantially attributed to inflation. The cost areas that increased the most were:

	<u>FYE 3/31/06</u>	<u>FYE 3/31/05</u>	<u>Per Cent Change</u>
Other operating-administrative	\$ 26,637	\$ 19,407	37.3%
Fuel	41,260	30,412	35.7%
Ordinary maintenance-materials	49,397	35,842	37.9%

## Budget Analysis:

A Low Rent Public Housing Operating Budget for FYE 3/31/06 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Although there were overruns in specific line items, actual results in total were in line with budgeted amounts.

### Entity-Wide Operational Highlights:

The Marysville Housing Commission provided the following housing units for low-income elderly and persons with disabilities.

	<u>FYE 3/31/06</u>	<u>FYE 3/31/05</u>
Low Rent Public Housing	132	132

During FYE 3/31/06, Marysville Housing Commission maintained a lease-up rate of 98.6% in its Public Housing Program. This lease-up rate is in line with HUD guidelines.

All CFP work for FFY's 2000 - 2005 has been completed. While no capital work was started in this fiscal year plans and specs were prepared for three future capital projects. It is anticipated that the emergency generator will be replaced and the fire alarm panel will be upgraded in the fourth quarter of 2006 and the flat roofs connecting the community building with the dwelling areas will be eliminated in the summer of 2006. With rising construction costs and decreasing capital grant amounts, it may be necessary to delay the scheduling of capital improvements until sufficient funds are available.

### Commission's Position

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents

There are no other currently known facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Wayne P. Pyden, Executive Director  
1100 New York  
Marysville, Michigan 48040-1477

## FINANCIAL STATEMENTS

MARYSVILLE HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
March 31, 2006  
=====

**ASSETS**

Current Assets:

Cash	\$ 49,226
Accounts receivable-HUD	1,000
Accounts receivable-dwelling rents	1,361
Allowance for doubtful accounts	( 1,141)
Accrued interest receivable	10,494
Investments-unrestricted	<u>489,961</u>

Total Current Assets 550,901

Property and Equipment:

Land	104,253
Buildings	3,768,997
Equipment	189,224
Building improvements	<u>1,605,473</u>
	5,667,947
Less: accumulated depreciation	<u>( 2,701,817)</u>

Net Property and Equipment 2,966,130

Total Assets \$ 3,517,031

See notes to financial statements

MARYSVILLE HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
March 31, 2006  
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**LIABILITIES and NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 47,750
Tenant security deposit liability	28,851
Accrued expenses	19,309
Deferred revenues	423
Other current liabilities	<u>22,051</u>
 Total Current Liabilities	 <u>118,384</u>
Net Assets:	
Invested in capital assets	2,966,130
Unrestricted net assets	<u>432,517</u>
 Total Net Assets	 <u>3,398,647</u>
 Total Liabilities and Net Assets	 <u>\$ 3,517,031</u>

See notes to financial statements

MARYSVILLE HOUSING COMMISSION  
**STATEMENT OF ACTIVITIES**  
Year Ended March 31, 2006  
=====

**OPERATING REVENUES:**

Dwelling rent	\$ 327,754
Nondwelling rent	<u>1,539</u>
Total operating revenues	<u>329,293</u>

**OPERATING EXPENSES:**

Administration	141,051
Tenant services	4,837
Utilities	114,456
Ordinary maintenance and operation	194,156
General expenses	45,630
Extraordinary maintenance	3,670
Depreciation	<u>187,480</u>
Total operating expenses	<u>691,280</u>

Operating income(loss)	<u>( 361,987)</u>
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**NONOPERATING REVENUES:**

Investment interest income	14,112
Other income	2,454
Gain on sale of fixed assets	368
Operating grants	138,130
Capital grants	<u>21,803</u>

Total nonoperating revenues	<u>176,867</u>
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Change in net assets	( 185,120)
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Net assets, beginning	<u>3,583,767</u>
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Net assets, ending	<u><u>\$ 3,398,647</u></u>
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See notes to financial statements

MARYSVILLE HOUSING COMMISSION  
STATEMENT OF CASH FLOWS  
Year Ended March 31, 2006

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 328,210
Cash payments to other suppliers of goods and services	( 239,339)
Cash payments to employees for services	( 227,322)
Cash payments for in lieu of taxes	<u>( 20,827)</u>
Net cash (used) by operating activities	<u>( 159,278)</u>

**CASH FLOWS FROM NONCAPITAL**

**FINANCING ACTIVITIES:**

Tenant security deposits	1,698
Operating grants	138,130
Other revenue	<u>2,454</u>
Net cash provided by noncapital financing activities	<u>142,282</u>

**CASH FLOWS FROM CAPITAL AND RELATED**

**FINANCING ACTIVITIES:**

Gain on sale of fixed assets	368
Capital grants	25,013
Payments for capital acquisitions	<u>( 41,316)</u>
Net cash (used) by capital and related financing activities	<u>( 15,935)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investments decreased	20,208
Receipts of interest and dividends	<u>11,665</u>
Net cash provided by investing activities	<u>31,873</u>

Net increase(decrease) in cash ( 1,058)

Cash, beginning 50,284

Cash, ending \$ 49,226

MARYSVILLE HOUSING COMMISSION  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
Year Ended March 31, 2006

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**RECONCILIATION OF CASH AND CASH  
EQUIVALENTS PER STATEMENT OF CASH  
FLOWS TO THE BALANCE SHEET:**

Cash	\$ <u>49,226</u>
Cash and cash equivalents per balance sheet	\$ <u>49,226</u>

**SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:**

Operating income(loss)	\$( 361,987)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	187,480
Bad debt allowance	1,141
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	( 1,180)
Prepaid expenses	11,141
Increase (decrease) in liabilities:	
Accounts payable	2,886
Accrued wages/payroll taxes	( 4,560)
Accrued payments in lieu of taxes	( 2,758)
Deferred revenues	97
Other current liabilities	<u>8,462</u>
Net cash (used) by operating activities	<u>\$( 159,278)</u>

See notes to financial statements



MARYSVILLE HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Marysville Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

Marysville Housing Commission is a component unit of the City of Marysville, a Michigan Home Rule City. The Housing Commission is a Public Housing Agency created by the City of Marysville on January 18, 1977, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Marysville Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract, the Housing Commission constructed, maintains and operates 132 units of subsidized housing in the City of Marysville, Michigan.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

**Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set

of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Marysville Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### **Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

### **Budgets and Budgetary Accounting**

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

### **Receivables**

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

### **Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

### **Fixed Asset Capitalization**

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment	3-10 years

### **Net Assets**

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

### **Operating Revenues and Expenses**

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense

is charged to invested in capital assets rather than unrestricted net assets.

#### **Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

#### **Vacation and Sick Leave**

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation time not taken shall not be accumulated and employees shall not be paid for any unused vacation time.
- \* Sick leave may be accumulated not to exceed one hundred twenty (120) days. In no event shall an employee be paid for sick leave not taken.

Since there is not any accumulation of leave time allowed, there is no accrual for compensated absences needed.

#### **Post Employment Benefits**

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

#### **Income Taxes**

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

#### **NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK**

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

#### **Deposits**

At year-end, the carrying amount of the Housing Commission's deposits were \$49,126 and the bank balance was \$110,763 of which \$110,763 was covered by federal depository insurance. There also was a petty cash fund of \$100.

## Investments

The Housing Commission had the following investments at Raymond James Financial Services, Inc. as of March 31, 2006:

U.S. Treasury Stripped Securities	\$158,961
Lehman Bros. Wilmington CD	100,000
Treasury Notes	94,000
Broadway Bank Chicago CD	80,000
Royal American Bank Inverness CD	<u>57,000</u>
Total	<u>\$489,961</u>

*Interest Rate Risk* - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

1. U.S. Treasury Notes - 100%; or
2. U.S. Treasury Notes and/or Bonds - 75% and
3. Mortgage Backed Securities - 25%

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$ 100
Carrying amount of deposits	49,126
Investments	<u>489,961</u>
Total	<u>\$ 539,187</u>
Cash and cash equivalents:	
Enterprise activities	\$ 600,824
Enterprise activities - checks written in excess of deposits	<u>( 61,637)</u>
Total	<u>\$ 539,187</u>

**NOTE 3: RECEIVABLES AND PAYABLES**

**Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2006, the receivables were \$1,361 with \$1,141 estimated as uncollectible. Bad debt expense was \$1,141.

**Inter-fund Receivables, Payables, and Transfers**

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund receivables and payables as of March 31, 2006.

There were no individual fund operating transfers during the fiscal year.

**NOTE 4: OTHER CURRENT LIABILITIES**

Other current liabilities consist of payables for utilities of \$22,051 as March 31, 2006.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Balance</u> <u>03/31/05</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>03/31/06</u>
<b>Low Rent Program</b>				
Land	\$ 104,253	\$	\$	\$ 104,253
Buildings	3,768,997			3,768,997
Furniture, equip. & machinery - dwellings	77,918		1	77,917
Furniture, equip. & machinery - administration	121,994	5,248	15,935	111,307
Building improvements	<u>1,259,445</u>	<u>162,342</u>		<u>1,421,787</u>
	5,332,607	<u>\$ 167,590</u>	<u>\$ 15,936</u>	5,484,261
Less accumulated depreciation	<u>(2,536,663)</u>	<u>\$(181,357)</u>	<u>\$ 22,326</u>	<u>(2,695,694)</u>
Total	<u>\$ 2,795,944</u>			<u>\$ 2,788,567</u>
<b>Capital Fund Program</b>				
Furniture, equip. & machinery - administration	\$ 10,828	\$	\$ 10,828	\$
Building improvements	<u>307,018</u>	<u>20,307</u>	<u>143,639</u>	<u>183,686</u>
	317,846	<u>\$ 20,307</u>	<u>\$ 154,467</u>	183,686
Less accumulated depreciation	<u>( 1,496)</u>	<u>\$( 6,123)</u>	<u>\$ 1,496</u>	<u>( 6,123)</u>
Total	<u>\$ 316,350</u>			<u>\$ 177,563</u>
<b>Combined Totals</b>				<u><u>\$ 2,966,130</u></u>

**NOTE 6: INVESTED IN CAPITAL ASSETS**

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning (contributed capital)	\$ 2,973,507
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>( 7,377)</u>
Balance, ending	<u><u>\$ 2,966,130</u></u>

## **NOTE 7: OTHER INFORMATION**

### **A. Pension Plan**

The Housing Commission has a Defined Contribution Pension Plan for all eligible employees. The Plan allows for participating employees to make contributions as well as the contributions made on their behalf by the Housing Commission. This plan only defines the amount contributed each year as a percent of gross wages (usually 3-5% annually).

### **B. Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

### **C. Risk Management and Litigation**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

### **D. Prior Period Adjustments, Equity Transfers and Correction of Errors**

#### Low Rent Program

Transfer closed CFP equity to LRPH	<u>\$ 154,467</u>
------------------------------------	-------------------

#### Capital Fund Program

Transfer closed CFP equity to LRPH	<u>\$(154,467)</u>
------------------------------------	--------------------

## **NOTE 8: SEGMENT INFORMATION**

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2006, was as follows:



	Low Rent Program	Capital Fund Program
<b>Condensed Statement of Net Assets</b>		
Current assets	\$ 549,901	\$ 1,000
Property and equipment	2,788,567	177,563
Total assets	<u>\$ 3,338,468</u>	<u>\$ 178,563</u>
Current liabilities	\$ 117,384	\$ 1,000
Total liabilities	<u>117,384</u>	<u>1,000</u>
Net assets:		
Invested in capital assets	2,788,567	177,563
Unrestricted net assets	432,517	
Total net assets	<u>3,221,084</u>	<u>177,563</u>
Total liabilities and net assets	<u>\$ 3,338,468</u>	<u>\$ 178,563</u>
<b>Condensed Statement of Activities</b>		
Dwelling rent	\$ 327,754	\$
Nondwelling rent	1,539	
Depreciation	( 181,357)	( 6,123)
Other operating expenses	( 503,800)	
Operating(loss)	<u>( 355,864)</u>	<u>( 6,123)</u>
Nonoperating revenues:		
Investment interest income	14,112	
Other income	2,454	
Gain on sale of fixed assets	368	
Operating grants	138,130	
Capital grants		21,803
Change in net assets	<u>( 200,800)</u>	<u>15,680</u>
Prior period adjustments, equity transfers and correction of errors	154,467	( 154,467)
Beginning net assets	<u>3,267,417</u>	<u>316,350</u>
Ending net assets	<u>\$ 3,221,084</u>	<u>\$ 177,563</u>
<b>Condensed Statement of Cash Flows</b>		
Net cash provided(used) by:		
Operating activities	\$ ( 159,278)	\$
Noncapital financing activities	145,492	( 3,210)
Capital and related financing activities	( 19,145)	3,210
Investing activities	<u>31,873</u>	
Net increase(decrease)	<u>( 1,058)</u>	
Beginning cash and cash equivalents	<u>50,284</u>	
Ending cash and cash equivalents	<u>\$ 49,226</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

MARYSVILLE HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
 March 31, 2006  
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 49,226	\$ 1,000
Accounts receivable-HUD		
Accounts receivable-dwelling rents	1,361	
Allowance for doubtful accounts- dwelling rents	( 1,141)	
Accrued interest receivable	10,494	
Investments-unrestricted	<u>489,961</u>	
Total current assets	<u>549,901</u>	<u>1,000</u>
Property and equipment:		
Land	104,253	
Buildings	3,768,997	
Equipment	189,224	
Building improvements	<u>1,421,787</u>	<u>183,686</u>
	5,484,261	183,686
Less accumulated depreciation	<u>( 2,695,694)</u>	<u>( 6,123)</u>
Net property and equipment	<u>2,788,567</u>	<u>177,563</u>
Total Assets	<u>\$ 3,338,468</u>	<u>\$ 178,563</u>

Totals

\$ 49,226  
1,000  
1,361

( 1,141)  
10,494  
489,961

550,901

104,253  
3,768,997  
189,224  
1,605,473  
5,667,947  
( 2,701,817)

2,966,130

\$ 3,517,031

MARYSVILLE HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
 March 31, 2006  
 =====

Low Rent Program	Capital Fund Program
<u>14.850</u>	<u>14.872</u>

**LIABILITIES and NET ASSETS**

Current liabilities:

Accounts payable	\$ 47,750	\$
Tenant security deposit liability	28,851	
Accrued expenses	19,309	
Deferred revenues	423	
Other current liabilities	<u>21,051</u>	<u>1,000</u>
Total current liabilities	<u>117,384</u>	<u>1,000</u>

Net assets:

Invested in capital assets	2,788,567	177,563
Unrestricted net assets	<u>432,517</u>	
Total net assets	<u>3,221,084</u>	<u>177,563</u>
Total Liabilities and Net Assets	<u>\$3,338,468</u>	<u>\$ 178,563</u>

Totals

\$ 47,750  
28,851  
19,309  
423  
22,051

118,384

2,966,130

432,517

3,398,647

\$ 3,517,031

MARYSVILLE HOUSING COMMISSION  
**COMBINING STATEMENT OF ACTIVITIES**  
 Year Ended March 31, 2006  
 =====

	Low Rent Program <u>14,850</u>	Capital Fund Program <u>14,872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 327,754	\$
Nondwelling rent	<u>1,539</u>	
Total operating revenues	<u>329,293</u>	
<b>OPERATING EXPENSES:</b>		
Administration	141,051	
Tenant services	4,837	
Utilities	114,456	
Ordinary maintenance and operation	194,156	
General expenses	45,630	
Extraordinary maintenance	3,670	
Depreciation	<u>181,357</u>	<u>6,123</u>
Total operating expenses	<u>685,157</u>	<u>6,123</u>
Operating income(loss)	<u>( 355,864)</u>	<u>( 6,123)</u>
<b>NONOPERATING REVENUES (EXPENSES) :</b>		
Investment interest income	14,112	
Other income	2,454	
Gain/loss on sale of fixed assets	368	
Operating grants	138,130	
Capital grants	<u>21,803</u>	
Total nonoperating revenues (expenses)	<u>155,064</u>	<u>21,803</u>
Change in net assets	<u>( 200,800)</u>	15,680
Prior period adjustments, equity transfers and correction of errors	154,467	(154,467)
Net assets, beginning	<u>3,267,417</u>	<u>316,350</u>
Net assets, ending	<u>\$3,221,084</u>	<u>\$177,563</u>

Totals

\$ 327,754  
1,539  
329,293

141,051  
4,837  
114,456  
194,156  
45,630  
3,670  
187,480  
691,280  
( 361,987)

14,112  
2,454  
368  
138,130  
21,803  
176,867  
( 185,120)

3,583,767  
\$ 3,398,647



MARYSVILLE HOUSING COMMISSION  
COMBINING STATEMENT OF CASH FLOWS  
Year Ended March 31, 2006  
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents		
Cash payments to other suppliers of goods and services	\$ 328,210	\$
Cash payments to employees for services	( 239,339)	
Cash payments for in lieu of taxes	( 227,322)	
	<u>( 20,827)</u>	
Net cash (used) by operating activities	<u>( 159,278)</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Interprogram receivables/payables	3,210	( 3,210)
Tenant security deposits	1,698	
Operating grants	138,130	
Other revenue	<u>2,454</u>	
Net cash provided(used) by noncapital financing activities	<u>145,492</u>	<u>( 3,210)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Gain on sale of fixed assets	368	
Capital grants		25,013
Payments for capital acquisitions	<u>( 19,513)</u>	<u>( 21,803)</u>
Net cash provided(used) by capital and related financing activities	<u>( 19,145)</u>	<u>3,210</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments decreased	20,208	
Receipts of interest and dividends	<u>11,665</u>	
Net cash provided by investing activities	<u>31,873</u>	
Net increase(decrease) in cash	( 1,058)	
Cash, beginning	<u>50,284</u>	
Cash, ending	<u>\$ 49,226</u>	<u>\$</u>

Totals

\$ 328,210

( 239,339)

( 227,322)

( 20,827)

( 159,278)

1,698

138,130

2,454

142,282

368

25,013

( 41,316)

( 15,935)

20,208

11,665

31,873

( 1,058)

50,284

\$ 49,226

MARYSVILLE HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
 Year Ended March 31, 2006  
 =====

Low Rent Program	Capital Fund Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH  
 EQUIVALENTS PER STATEMENT OF  
 CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$ <u>49,226</u>	\$ _____
Cash and cash equivalents per balance sheet	\$ <u><u>49,226</u></u>	\$ <u><u>          </u></u>

**SCHEDULE RECONCILING OPERATING INCOME  
 TO NET CASH FLOW FROM OPERATING  
 ACTIVITIES:**

Operating income(loss)	\$( 355,864)	\$( 6,123)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	181,357	6,123
Bad debt allowance	1,141	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	( 1,180)	
Prepaid expenses	11,141	
Increase (decrease) in liabilities:		
Accounts payable	2,886	
Accrued wages/payroll taxes	( 4,560)	
Accrued payments in lieu of taxes	( 2,758)	
Deferred revenues	97	
Other current liabilities	<u>8,462</u>	
Net cash (used) by operating activities	<u><u>\$( 159,278)</u></u>	<u><u>          </u></u>

Totals

\$ 49,226

\$ 49,226

\$ ( 361,987)

187,480  
1,141

( 1,180)  
11,141

2,886  
( 4,560)  
( 2,758)  
97  
8,462

\$ ( 159,278)

MARYSVILLE HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended March 31, 2006  
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	Public and Indian Housing <u>Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 138,130
	Public and Indian Housing <u>Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	<u>21,803</u>
	Total		<u>\$ 159,933</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the  
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MARYSVILLE HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE**  
 Year Ended March 31, 2006  
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 49,226	\$
100	Total cash	<u>49,226</u>	
	Receivables:		
122	A/R-HUD other projects		1,000
126	A/R-tenants-dwelling rents	1,361	
126.1	Allowance for doubtful accounts- dwelling rent	( 1,141)	
129	Accrued interest receivable	<u>10,494</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>10,714</u>	<u>1,000</u>
131	Investments-unrestricted	<u>489,961</u>	
150	Total current assets	<u>549,901</u>	<u>1,000</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	104,253	
162	Buildings	3,768,997	
163	Furn, equip & mach-dwellings	77,917	
164	Furn, equip & mach-admin.	111,307	
165	Building improvements	1,421,787	183,686
166	Accumulated depreciation	<u>(2,695,694)</u>	<u>( 6,123)</u>
160	Total fixed assets, net of accumulated depreciation	<u>2,788,567</u>	<u>177,563</u>
180	Total noncurrent assets	<u>2,788,567</u>	<u>177,563</u>
190	Total Assets	<u>\$ 3,338,468</u>	<u>\$ 178,563</u>

Totals

\$ 49,226

49,226

1,000

1,361

( 1,141)

10,494

11,714

489,961

550,901

104,253

3,768,997

77,917

111,307

1,605,473

( 2,701,817)

2,966,130

2,966,130

\$ 3,517,031

MARYSVILLE HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2006  
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES AND EQUITY/NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 10,716	\$
321	Accrued wage/payroll taxes payable		
333	Accounts payable-other government	19,309	
341	Tenant security deposits	37,034	
342	Deferred revenues	28,851	
345	Other current liabilities	423	
		<u>21,051</u>	<u>1,000</u>
310	Total current liabilities	<u>117,384</u>	<u>1,000</u>
300	Total liabilities	<u>117,384</u>	<u>1,000</u>
	Equity:		
508.1	Invested in capital assets	<u>2,788,567</u>	<u>177,563</u>
508	Total equity	2,788,567	177,563
	Net Assets:		
512.1	Unrestricted net assets	<u>432,517</u>	
513	Total equity/net assets	<u>3,221,084</u>	<u>177,563</u>
600	Total Liabilities and Equity/Net Assets	<u>\$3,338,468</u>	<u>\$ 178,563</u>



Totals

\$ 10,716

19,309

37,034

28,851

423

22,051

118,384

118,384

2,966,130

2,966,130

432,517

3,398,647

\$ 3,517,031

MARYSVILLE HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2006  
 =====

FDS Line Item No.		Low Rent Program	Capital Fund Program
	<b>Revenue:</b>	<u>14.850</u>	<u>14.872</u>
703	Net tenant rental revenue		
704	Tenant revenue-other	\$ 327,754	\$
705	Total tenant revenue	<u>1,539</u>	
706	HUD PHA grants	329,293	
706.1	Capital grants	138,130	
711	Investment income-unrestricted		21,803
715	Other revenue	14,112	
716	Gain/loss on sale of fixed assets	2,454	
		<u>368</u>	
700	Total revenue	<u>484,357</u>	<u>21,803</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries		
912	Auditing fees	90,458	
915	Employee benefit contributions-adm.	2,750	
916	Other operating-administrative	21,206	
		26,637	
	Tenant Services:		
924	Tenant services-other		
		4,837	
	Utilities:		
931	Water		
932	Electricity	38,051	
933	Gas	35,145	
		41,260	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor		
942	Ordinary maint & oper-mat'ls & other	89,892	
943	Ordinary maint & oper-contract costs	33,661	
945	Employee benefit contributions	49,397	
		21,206	
	General expenses:		
961	Insurance premiums		
963	Payments in lieu of taxes	26,420	
964	Bad debt-tenant rents	18,069	
		<u>1,141</u>	
969	Total operating expenses	<u>500,130</u>	
970	Excess operating revenue over operating expenses	<u>( 15,773)</u>	<u>21,803</u>

<u>Totals</u>	
\$	327,754
	<u>1,539</u>
	329,293
	138,130
	21,803
	14,112
	2,454
	<u>368</u>
	<u>506,160</u>

90,458  
2,750  
21,206  
26,637

4,837

38,051  
35,145  
41,260

89,892  
33,661  
49,397  
21,206

	26,420
	18,069
	<u>1,141</u>
	<u>500,130</u>
	<u>6,030</u>

MARYSVILLE HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2006  
 =====

FDS Line Item No.		Low Rent Program <u>14,850</u>	Capital Fund Program <u>14,872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
971	Extraordinary maintenance	3,670	
974	Depreciation expense	<u>181,357</u>	<u>6,123</u>
	Total other expenses	<u>185,027</u>	<u>6,123</u>
900	Total expenses	<u>685,157</u>	<u>6,123</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	( 200,800)	15,680
1104	Prior period adjustments, equity transfers and correction of errors	154,467	(154,467)
1103	Beginning Net Assets	<u>3,267,417</u>	<u>316,350</u>
	Ending Net Assets	<u>\$ 3,221,084</u>	<u>\$177,563</u>

Totals

3,670  
187,480

191,150

691,280

( 185,120)

3,583,767

\$ 3,398,647

**Report on Internal Control Over Financial Reporting<sup>Fax</sup>  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Board of Housing Commissioners  
Marysville Housing Commission  
Marysville, Michigan

I have audited the financial statements of the business-type activities of the Marysville Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated November 9, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operations that I consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*  
Marysville Housing Commission  
Page Two

**Compliance and Other Matters (continued)**

compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated November 9, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sandy E. Fankell, CPA*

November 9, 2006

MARYSVILLE HOUSING COMMISSION

ADJUSTING JOURNAL ENTRIES

March 31, 2006

=====

<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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LOW RENT PROGRAM

There were no adjusting journal entries necessary.



MARYSVILLE HOUSING COMMISSION

**INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS**

MARCH 31, 2006

**MARYSVILLE HOUSING COMMISSION**  
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**MARCH 31, 2006**

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**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Marysville Housing Commission

I have audited the financial statements of the Marysville Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated November 9, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). Audit adjustments were not necessary.

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

*Samy E. Landolt, CPA, PC*

November 9, 2006

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Marysville Housing Commission

I have audited the financial statements of the Marysville Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated November 9, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, PC*

November 9, 2006

MARYSVILLE HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
March 31, 2006

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**Revenues**

It should be noted that I did not identify improper revenue recognition as a fraud risk for the following reasons:

- \* The Housing Commission uses software for its Tenant Accounting.
- \* The Housing Commission does not accept cash for the payment of rents.
- \* There is segregation of duties between the collection of rents, the preparation of deposit tickets, and the deposit in the bank.
- \* The Executive Director compares the deposit ticket and bank receipt to the batch reports and receipts.

**HUD Independent Assessment**

On August 3, 2006, HUD released a report on an Independent Assessment of the Housing Commission's management and operation, and was conducted by the Detroit HUD Office of Public Housing. The review was conducted due to the non-submission of the Marysville Housing Commission's Management Certification for the fiscal year ending March 31, 2005.

The purpose of the review was to ascertain the status of the Commission's Low-Rent Public Housing program compliance, and to evaluate the Commission's policies, practices, and procedures. The Commission has submitted its Management Certification for PHA fiscal year ending March 31, 2006; therefore, an Improvement Plan(IP) or a Memorandum of Agreement(MOA) is not required.

The report outlined the results of the review, and identifies observations, and recommendations for improvement, one(1) for concern under Governance, one(1) finding under financial management, and three(3) findings under procurement.

As of the date of my audit report, the Housing Commission is in the process of resolving the findings and concerns outlined in the report.

MARYSVILLE HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
March 31, 2006

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**Tenant Files**

We selected at random seven(7) low rent tenant files to thoroughly test. The results are as follows:

Low Rent Program

There were 2 tenant files missing a copy of the photo ID and 6 were missing a copy of the social security card. Also, the following were missing once: HUD-50058 form, privacy act notice, timely annual review, worksheet for HUD-50058, notice of rent adjustment, and a criminal background check.

The Housing Commission needs to continue concentrating on obtaining any missing documentation at the annual reexamination or interim reviews.

MARYSVILLE HOUSING COMMISSION

**ADJUSTING JOURNAL ENTRIES**

March 31, 2006

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries.